

VZCZCXRO0842
RR RUEHGR
DE RUEHKG #1028/01 3431349
ZNR UUUUU ZZH
R 081349Z DEC 08
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC 7034
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 KINGSTON 001028

SIPDIS
SENSITIVE

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY)(FCORNEILLE)
EEB/ESC/IEC/EPC (MMcMANUS)
INR/RES (RWARNER)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A
TAGS: [ENRG](#) [EINV](#) [ECON](#) [ETRD](#) [EAGR](#) [IADB](#) [IBRD](#) [IMF](#) [TRSY](#) [XL](#) [JM](#)
SUBJECT: JAMAICA: INFINITY ETHANOL DEAL TO CLOSE IN DECEMBER

REF: A) KINGSTON 917
B) KINGSTON 703
C) KINGSTON 755

SUMMARY -----

¶1. (SBU) The Government of Jamaica's (GOJ) plan to sell the assets of the Sugar Company of Jamaica (SCJ) parastatal to Brazilian-based Infinity Bio-Energy missed the original target of September 31, but should be completed by December 31. Infinity blames contract negotiations and the global credit crisis for the delays. The firm hopes to begin producing ethanol from Jamaican grown feedstock by December 2010. Its ethanol production goals are 79 million liters by 2010 with an increase to 135 million liters by 2013. END SUMMARY.

Deal Delayed Until Dec 31 -----

¶2. (SBU) Joao Carlos dos Reis, Infinity Bio-Energy's Implementation Team Leader in Jamaica, told Econoff on December 5 that the deal should be finalized by December 31. He said his firm's CEO Sergio Thompson-Flores will be in Jamaica on December 10 to meet with GOJ officials. He said the real challenge for Infinity has been to get credit in the current financial climate, adding that, as the financial crisis unfolded, Brazilian banks began hurting and soon withdrew existing lines of credit. Originally, Infinity was to spend USD 108 million on the project, but that figure is now lower (although he would not say by how much). COMMENT: Infinity's stock price also has suffered in recent months; it is down 91 percent for the year on the London Stock Exchange. END COMMENT

Golding Talked About Delays -----

¶3. (SBU) The GOJ prematurely announced in July that the agreement was finalized and the transfer of assets would take place by September 31 (reftel B). The deal calls for the creation of a new joint venture named Infinity Jamaica - Ethanol Green Energy. Infinity will hold 75 percent of the assets and the GOJ will retain a 25 percent stake for at least three years. In October Prime Minister Bruce Golding said during his monthly Jamaica House radio address that he was concerned that the current financial crisis could affect the divestment of Jamaica's sugar assets; however, he expected divestment of the assets should be completed by mid November--which did not happen.

Terms of the Deal -----

¶4. (SBU) The joint venture has four main components: (A) Infinity has a five-year off-take agreement in which it will supply 100

percent of Jamaica's demand for E10 and E25 fuel blends. (B) it will build two power generation plants to produce 29 Megawatts (MW) of power annually, which will be sold to the grid for approximately 17.2 cents per kilowatt hour. This component includes a 25-year power purchase agreement. (C) it will purchase the assets of the former parastatal SCJ. (D) it will purchase the Petrojam Ethanol refinery for processing hydrous from Brazil used in ethanol exports to markets in the US and the EU (reftel C). Reis said a fire that damaged part of the cooling tower at the refinery on November 24 was not a major setback. He said it will take 30 days to repair and should not affect the county's current roll out efforts for E10 on the island (reftels).

Labor and Redundancy

15. (SBU) Under the terms of the agreement, all 7,000 SCJ employees will be made redundant and will receive a severance package from the GOJ. Infinity intends to rehire 49 percent of these workers under the new joint venture. COMMENT: According to the Gleaner newspaper an SCJ employee with five years of service is entitled to receive 12 weeks worth of pay, and one with 20 years of service receives 62 weeks worth of pay. For the cash strapped GOJ, these redundancy costs are going to be extremely expensive. Some of the funding will come from an economic assistance package provided under the Economic Partnership Agreement (EPA) signed earlier this year with the European Union (EU). END COMMENT.

Improving Efficiency

16. (SBU) Infinity plans to close at least one factory and intends to

KINGSTON 00001028 002 OF 002

use mechanization and improved technology to increase efficiency levels which are currently almost 60 percent below those in Brazil. Infinity hopes the strong labor unions, often viewed by some as a hindrance to foreign investment in Jamaica, will recognize this joint venture as an opportunity for their employees to secure new skills and better paying jobs.

COMMENT

17. (SBU) Prior to this agreement, the GOJ has lost USD 283 million on SCJ since purchasing the company in 1998. The GOJ is desperate to get the SCJ and its other major beleaguered parastatal, Air Jamaica, off its books as soon as possible. As the economic situation in Jamaica worsens, the GOJ lacks the budgetary resources to continue to carry these two massive loss making entities.

HEG